CASE STUDY

HIDDEN CONNECTIONS BETWEEN PRICE & PROFIT

How advanced analytics uncovered opportunities in one brand's non-commercial bid strategy.

by Jennifer Schiffman

We've all seen it happen: big businesses with beloved brands knee deep in pricing drama. It's particularly thorny in sensitive non-commercial segments, like K-12. Kids and parents want to see branded products in schools, but the distributor does everything possible to seed private label, adding to the sales struggle and inflating rebate offers along the way.

Businesses make less than sensible concessions to maintain or win critical K-12 volume. But when not properly evaluated, these deals regularly result in margin erosion. When was the last time you reviewed performance and set a plan to claw back poor trade investments?

Let's look at a case study where one big branded business recently applied advanced analytics to their K-12 pricing strategy, only to find out that a significant trade investment did not yield any increase in volume.

THE SITUATION

· One branded SKU at Big Brands Company accounts for approximately 8% of the volume within the K-12 segment.

· The same SKU accounts for ~20% of K-12 trade dollars.

· SKU volume has declined 5-7% year over year.

· SKU trade dollars have grown 5-6% year over year.

If you're a brand or finance manager, those stats probably have you feeling a bit queasy. The inverse relationship of declining volume and increasing trade dollars isn't one you would expect or be pleased to see. But it's important to dive deeper to understand if some (or all) of the poor performing deals can be reworked.

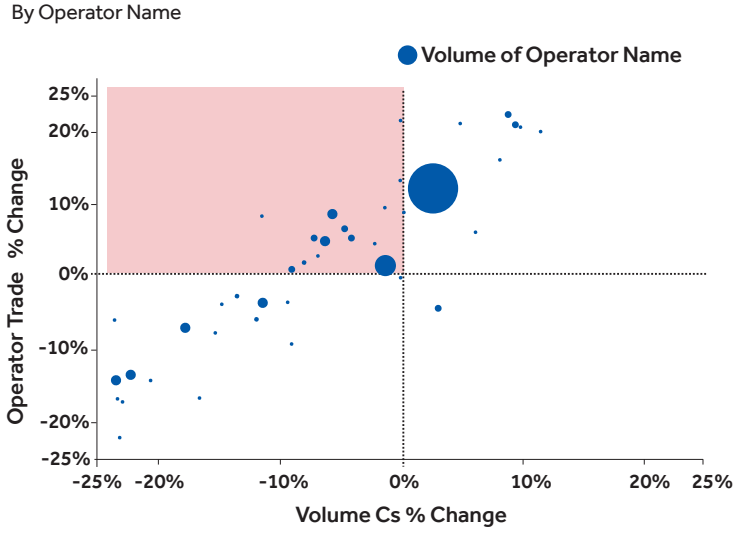
DIGGING IN

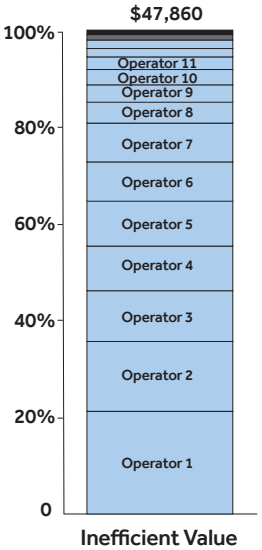
Analysis of operator performance and pricing efficiency for the SKU identified 2.5% of potential trade savings opportunity in the K-12 segment across two key areas:

First, by analyzing operator performance, isolating where operator trade increased and where volume decreased,

OPERATOR TRADE GROWTH ($) VS. VOLUME GROWTH (Cs)

By Operator Name





Source: Blacksmith Advanced Analytics

ANALYZING OPERATOR PERFORMANCE

In order to identify inefficient trade spending, we analyzed operator performance and plotted the percent change in volume versus the percent change in trade. Upon examination, we identified approximately $48k in incremental trade spend versus the prior year that resulted in less volume (increase in trade, decrease in volume).

Fortunately, nearly 80% of the inefficient trade spend was spread across only a handful of operators. In each case, we performed a pricing analysis to determine an optimal allowance and potential break-even allowance rate.

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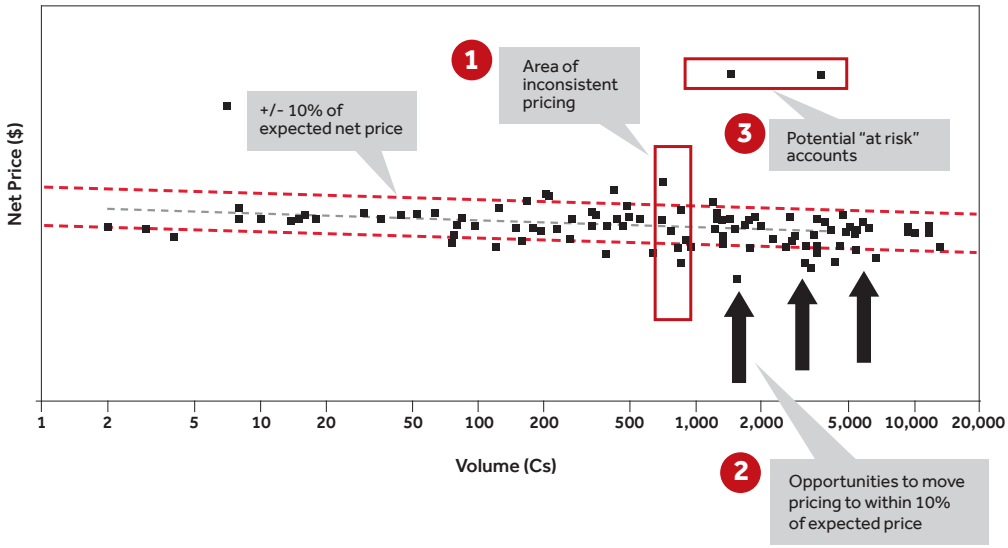

FINDING THE INCONSISTENCIES

There are several areas of inconsistent pricing across a narrow range of volume (same segment, same product, same demand, wide dispersion of price).

Moving net price to the mid-point of expected pricing has the potential to create an additional $52K of incremental margin opportunity.

Several accounts at very extreme levels of pricing may indicate "at risk" accounts or provide opportunities to invest in strong historical performance.

we identified ~$50K of opportunity with operators.

The opportunity dollars were identified as incremental trade spend vs the prior year that did not yield any increase in volume, and new pricing recommendations were created to more accurately price based on volume performance.

Second, we looked at pricing and spotted a few key areas for improvement:

Identification of inefficient pricing revealed ~$50K of savings that could be actioned through higher pricing. We used historical price-to-volume relationships to create an expected price for each volume, and then isolated any programs that were outside of a 10% range from the expected price. Essentially, where a deeper than expected discount was given for a particular volume.

In addition to these savings, our analysis identified areas of inconsistent pricing, i.e.: same segment, same product, same volume demand, but wide dispersion of pricing. The culprit here is most likely lack of institutional processes and guardrails around pricing guidance.

Although currently favorable to the manufacturer, "at-risk" programs were also identified. These programs represent business where the given price is substantially higher than the expected price at that volume. They could easily be undercut by competition and should be reviewed more closely.

ADDING IT ALL UP

The identified savings represents 2.5% of applicable trade spending within the segment for the given SKU.

Capturing just half of the savings would result in a double-digit increase in gross margin across the segment.

It's critical to start out with well documented contracts and reliable invoice reporting from which to complete your analysis. A strong trade management application should be the source of truth for this data.

PLAN OF ACTION

The following action items will be on our customer's to-do list as they continue their price analysis and optimization journey:

1. For inefficient operator trade, analyze program details to understand expected vs. actual performance; take action to increase menu opportunities or revise bids at the next opportunity, i.e.: new semester or next bid season.
2. Identify top 20 SKUs within the K-12 segment and create pricing guidance to reduce the span of variability in pricing.
3. Investigate programs for operators with net prices outside of the recommended +/- 10% expected price point to identify the root cause of outlier pricing and correct those deals.
4. Assess "at risk" accounts (those pricing well above expected) and adjust or incentivize as required.
5. Formalize the process and framework to create repeatable analyses at regular intervals.

If your team is looking to get started on a price optimization journey, give us a shout. We can help: hello@blacksmithapplications.com